



December 2004 Finance Report

Information Technology Investment Board Finance and Audit Committee Meeting December 7, 2004

This month's finance report provides information on the following topics:

- October 2004 financial results
- Savings report update
- 2004 – 2006 biennial budget amendments update
- November 2004 JLARC submission update

October 2004 Financial Results

October 2004 Financial Results All Funds

	<i>FY2005 Approved Budget</i>	<i>FY2005 Adjusted Budget</i>	<i>October 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i>
				%
Operating Revenues, incl transfers in	\$291,643,258	\$258,062,096	\$63,306,736	25
Expenses, incl transfers out	<u>295,155,701</u>	<u>261,828,742</u>	<u>65,269,426</u>	25
Net Change	(3,512,443)	(3,766,646)	(1,962,692)	
Retained Earnings, July 1	<u>40,976,611</u>	<u>45,267,229</u>	<u>45,267,229</u>	
Ending Retained Earnings	<u>\$37,464,168</u>	<u>\$41,500,583</u>	<u>\$43,304,539</u>	

Financial activity through the first four months of fiscal year 2005 in all funds is as expected. The budgets approved by the Information Technology Investment Board in July 2004 have been adjusted where appropriate for changes occurring since that time. The large decrease from the Approved Budget results primarily from the reclassification of the VIPNet budget data, which is described in more detail in the Enterprise Funds section below. In addition, all retained earnings as of July 1, 2004 have been updated to reflect final FY04 activity. The agency's cash position is a concern, though not unexpected; it is described in more detail under the Internal Service Fund Results section. A pending liability in the enterprise E-911

fund may impact its fiscal year results, and is described in the Enterprise Funds section below.

October 2004 Financial Results Internal Service Funds

	<i>FY2005 Approved Budget</i>	<i>FY2005 Adjusted Budget</i>	<i>October 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i> %
Operating Revenues, incl transfers in	\$211,265,316	\$212,873,100	\$47,358,182	22
Expenses, incl transfers out	<u>210,904,274</u>	<u>210,904,274</u>	<u>44,873,271</u>	21
Net Change	361,042	1,968,826	2,484,911	
Retained Earnings, July 1	<u>25,362,000</u>	<u>27,788,000</u>	<u>27,788,000</u>	
Ending Retained Earnings	<u>\$25,723,042</u>	<u>\$29,756,826</u>	<u>\$30,272,911</u>	

In VITA's Internal Service Funds, projected revenues were revised to reflect the net revenue increase resulting from new billing rates approved by JLARC in November. The largest increase to customers will be felt in certain increased telecommunications services rates; however, agencies overall still realized significant COVANET savings based on last year's MCI contract as well as certain decreased computer services rates based on the November JLARC approval.

Revenues and expenses, as a percent of total budget, are lower in the first four months of the fiscal year, as expected, due to the graduated pace of large agency transitions and the learning curve associated with the new eVA ordering and receiving processes. The revenue and spending impact of the transitioned large agencies should align with the budget in the third and fourth quarters of the fiscal year.

The "Direct Bill" implementation is responsible for almost \$7 million of the decrease in cash of \$10 million since June 30 (see Exhibit C, ISF Statement of Cash Flows). Direct Bill requires VITA to pay salaries and vendor invoices for transitioned agency IT goods and services and then bill these costs plus the approved administrative fee back to the transitioned agencies. This results in a lag between payment for goods and services and receipt of customer revenues, causing a decrease in cash balances. The last group of large agencies transitioned as of November 25. With the processing of the December 16 payroll, VITA will be able to gauge the full impact of transitioned employees and the 3% salary increase on monthly personnel expenses. FMS staff will begin gathering actual financial information for transition activities to analyze and project the longer term impact on cash flows. This activity will be ongoing throughout the fiscal year as the full impact of the new direct bill process will not be readily apparent for some time due to the learning curve described in the section entitled "Prompt Pay Compliance" later in this report. The status of this analysis will be reported at the next Finance and Audit Committee meeting.

October 2004 Financial Results Enterprise Funds

	FY2005 Approved Budget	FY2005 Adjusted Budget	October 2004 Actual Results	Actual as a Percent of Adjusted Budget %
Operating Revenues, incl transfers in	\$74,400,000	\$40,200,000	\$14,408,453	36
Expenses, incl transfers out	<u>77,308,485</u>	<u>43,159,000</u>	<u>18,899,239</u>	44
Net Change	(2,908,485)	(2,959,000)	(4,490,786)	
Retained Earnings, July 1	<u>14,122,036</u>	<u>14,403,865</u>	<u>14,403,865</u>	
Ending Retained Earnings	<u>\$11,213,551</u>	<u>\$11,444,865</u>	<u>\$9,913,079</u>	

VITA's Enterprise Funds are comprised of the portal access program and E-911. Budgeted revenues and expenses were reduced by \$32 million to remove "pass-thru" funding for VITA's portal access (VIPNet) program. Virginia Interactive, under contract to VITA, collects portal access and subscription fees from the business community that are then transferred, or "passed thru," to the appropriate state agencies. Because VITA acts only as a transfer agent for these funds, they have been removed from the budget presentation. State agencies have received over \$9 million in these "pass-thru" fees through October 2004.

The Virginia Wireless E-911 Services Board promotes and assists in the development, deployment and maintenance of enhanced wireless emergency telecommunications services and technologies and in the development and deployment of enhanced wireline emergency telecommunications services and technologies. Budgeted revenues and expenses have been adjusted to reflect a decrease in estimated revenue of \$2 million and an equal reduction in expenses. The E-911 fund took in \$12 million in revenue during the first four months of the year and paid out almost \$16 million to providers, accounting for the loss in the fund through October 2004. The E-911 expenses exceed revenues in the early part of a fiscal year due to year-end close out payments to carriers. Additionally, current fiscal year payments are often made at the beginning of a quarter before revenues are received. A potential liability may significantly affect the fund balance in this account; a more accurate assessment will be made after January 1 when service providers submit their full expense reports.

**October 2004 Financial Results
General Funds**

	<i>FY2005 Approved Budget</i>	<i>FY2005 Adjusted Budget</i>	<i>October 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i> %
Operating Revenues, incl transfers in	\$2,527,822	\$2,380,324	\$778,454	33
Expenses, incl transfers out	<u>2,527,822</u>	<u>2,380,324</u>	<u>778,454</u>	33
Net Change	0	0	0	
Retained Earnings, July 1	<u>0</u>	<u>0</u>	<u>0</u>	
Ending Retained Earnings	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	

General fund projected revenues have been adjusted to match general fund appropriations in the 2004 Acts of Assembly, Special Session 1, Chapter 4. These funds are ear-marked to primarily support VITA's Strategic Management Services directorate. Spending is on target with the budget with about one-third of the funds expended through October. Because the funds must be used in the year appropriated, expenditures will not exceed appropriations at the end of the fiscal year.

**October 2004 Financial Results
Special Revenue Funds**

	<i>FY2005 Approved Budget</i>	<i>FY2005 Adjusted Budget</i>	<i>October 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i> %
Operating Revenues, incl transfers in	\$2,422,049	\$2,422,049	\$575,024	24
Expenses, incl transfers out	<u>2,422,049</u>	<u>3,205,450</u>	<u>22,451</u>	1
Net Change	0	(783,401)	552,573	
Retained Earnings, July 1	<u>527,575</u>	<u>1,082,293</u>	<u>1,082,293</u>	
Ending Retained Earnings	<u>\$527,575</u>	<u>\$298,892</u>	<u>\$1,634,866</u>	

Budgeted expenses were adjusted to reflect anticipated spending of prior year fund balances. The main components of the Special Revenue Funds are the IFA, PPEA, GIS, and Virginia Technology Infrastructure with October 2004 fund balances of \$677,000, \$181,000, 348,000, and \$300,000, respectively. The majority of revenues were in the IFA fund, just over \$547,000, while most expenditures (\$19,000) were incurred by the PPEA initiative. Transfers for IFA expenses occur in the fourth quarter, resulting in the low utilization rate shown for October.

October 2004 Financial Results Federal Funds

	<i>FY2005 Approved Budget</i>	<i>FY2005 Adjusted Budget</i>	<i>October 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i> %
Operating Revenues, incl transfers in	\$1,028,071	\$186,623	\$186,623	100
Expenses, incl transfers out	<u>1,993,071</u>	<u>2,179,694</u>	<u>696,011</u>	32
Net Change	(965,000)	(1,993,071)	(509,388)	
Retained Earnings, July 1	<u>965,000</u>	<u>1,993,071</u>	<u>1,993,071</u>	
Ending Retained Earnings	<u>\$0</u>	<u>\$0</u>	<u>\$1,483,683</u>	

Federal revenue and expenditure budgets have been adjusted for timing differences in the receipt of funds. VITA carried over almost \$2 million in federal funds from fiscal year 2004 as a result of a large federal grant being received late in the fiscal year, ahead of the anticipated receipt. VITA is awaiting approval of \$950K in additional Homeland Security funds, intended to build the Commonwealth's incident management capability and submitted to the Virginia Department of Emergency Management (VDEM) in October. VITA also received almost \$187,000 in additional Homeland Security grant funds from VDEM to support additional functionalities in the Statewide Alert Network in early FY 2005. Expenditures are on target to complete grant funded activities as planned.

Prompt Payment Compliance

As expected, prompt pay compliance in October dropped to 86.5% as VITA implemented the Direct Bill process with the first wave of large transitioned agencies. The challenges are three-fold: (1) a transitioned agency must send IT invoices to VITA for payment, (2) transitioned agencies must learn a new ordering procedure that includes adding VITA as the "bill to" address, and (3) agencies must implement a new procedure to "receive" the goods or services in eVA. Implementing the receiving procedure seems to be the largest hurdle for the transitioned agencies. With each new wave of transitioned agencies, these challenges

will surface and grow. The solution is training agency and VITA employees on these new procedures and working with DGS to implement fixes in eVA. These efforts are on-going.

The following financial statements for the Virginia Information Technologies Agency as of October 31, 2004 are provided at the end of this report:

- Combined Balance Sheet for Internal Service Funds—Exhibit A
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Internal Service Funds—Exhibit B
- Combined Statement of Cash Flows for Internal Service Funds—Exhibit C
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Enterprise Funds—Exhibit D
- Combined Statement of Revenues, Expenses and Changes in Net Assets for General and Special Revenue Funds—Exhibit E

Savings Report Update

Since July 2003, VITA has implemented numerous information technology initiatives that have resulted in savings or cost avoidance to Commonwealth agencies. Information on these initiatives as of December 1, 2004, is shown in Exhibit F with the baseline benefit shown for a six-year period, FY05 – FY10.

Exhibit F VITA Integration Cost Savings and Avoidance Report (Updated for Baseline FY 05 - 10)

Initiative	FY 04 Savings	FY 05 Savings	FY 06 Savings	Six-Year Baseline Benefit
Voice and data telecommunications contract extension (ATM T-1 Circuits)	\$528,000	\$528,000	\$528,000	\$3,168,000
Conversion of Unix and Oracle contractors to full-time positions	\$132,000	\$132,000	\$132,000	\$792,000
Efficient tape technology stacking and replacement	\$173,000	\$108,000	\$108,000	\$648,000
Telecommunications MCI contract (COVANET)	\$1,542,000	\$3,085,000	\$3,085,000	\$18,510,000
Verizon contract renegotiation	\$0	\$4,675,000	\$5,861,000	\$33,980,000
Streamline 1-800 voice services	\$2,000	\$103,000	\$103,000	\$618,000
Streamline cellular usage	\$524,000	\$1,333,000	\$1,333,000	\$7,998,000

SAG software contract renegotiation	\$8,000	\$32,000	\$32,000	\$192,000
Sun server procurement	\$484,000	\$0	\$0	\$0
Virginia Partners in Procurement – Hardware and Software (Wave I)	\$12,098,000	\$14,576,000	\$14,576,000	\$87,456,000
Virginia Partners in Procurement – Computer Peripherals and Enterprise Storage (Wave II)	\$174,000	\$558,000	\$558,000	\$3,348,000
DGS Small Server Consolidation	\$0	\$34,000	\$41,000	\$239,000
Subtotal, Savings	\$15,665,000	\$25,164,000	\$26,357,000	\$156,949,000

Initiative	FY 04 Cost Avoidance	FY 05 Cost Avoidance	FY 06 Cost Avoidance	Six-Year Baseline Benefit
Software Licenses	\$495,000	\$615,000	\$615,000	\$3,690,000
Server Acquisitions	\$380,000	\$380,000	\$0	\$380,000
DGS Small Server Consolidation	\$0	\$395,000	\$0	\$395,000
Subtotal, Cost Avoidance	\$875,000	\$1,390,000	\$615,000	\$4,465,000
Total, Savings & Cost Avoidance	\$16,540,000	\$26,554,000	\$26,972,000	\$161,414,000

*These figures included calculated savings from a variety of sources including, but not limited to, federal funds, state general fund dollars, and special funds. Portions of savings associated with ATM T-1 Circuits, COVANET and cellular usage have been withdrawn from the agencies budgets in HB 2001.
Six-Year Baseline Benefit period covers three biennia, 2005 – 2010.*

Related to this topic, VITA established a working group to:

- Develop a consistent, re-usable template that can be used to document baseline costs of specified IT services and new VITA shared services costs in order to determine benefits;
- Document the process for use of the format, and definitions of each line-item on the template so it can be applied consistently; and
- Prepare documentation to gain approval of the methodology and template from the Secretary of Finance, Auditor of Public Accounts, and the Information Technology Investment Board.

This group has received invaluable input from APA staff and has also provided updates to both JLARC and Secretary of Finance staff. Target date for completion is mid-December 2004.

2004 – 2006 Biennial Budget Amendments Update

VITA submitted to the Department of Planning and Budget (DPB) eleven amendments to the 2004-06 biennial budget on October 13. These amendments were approved by the ITIB that day, prior to their submission. Eight of the amendments requested additional funding; three requested revisions to language in the current Appropriation Act (Chapter 4).

Governor Warner will present his executive budget proposal to the 2005 members of the House Finance and Appropriations Committees and the Senate Finance Committee on December 17. In the interim between the submission of budget amendments and final development of the Budget Bill, VITA finance and strategic management staff have been working closely with DPB to address issues and questions related to the agency's amendments and IT-related amendments requested by other state agencies. Cooperation between staff at all levels of VITA has been outstanding.

In mid-November, with DPB's concurrence, VITA submitted an additional budget amendment seeking funding (\$0.5M) for several agencies' unbudgeted expenses for the performance of Independent Verification and Validation (IV &V) audits of major IT projects during the current fiscal year. This issue is being considered by DPB as well as the amendments initially proposed.

The executive branch is required to provide copies of all state agencies' budget amendments to the General Assembly money committees shortly after the submission deadline. Consequently, staff to the House Appropriations and Senate Finance Committees is aware of VITA's funding and language concerns. It is therefore possible that even amendments not recommended by the Governor could be topics of interest in the General Assembly session convening January 12, 2005.

Immediately following Governor Warner's budget presentation on December 17, VITA's finance staff will prepare a summary of the actions affecting VITA for agency management, ITIB members, and the Secretary of Technology. Likewise, at key milestones in the General Assembly's budget review and deliberations (publication of member amendments to the Budget Bill; money committee reports on their respective budget recommendations; and the Conference Committee's recommendations) similar analyses will be provided to the same audience in a timely manner.

November 2004 JLARC Submission Update

On October 8, 2004 VITA briefed the ITIB Finance Committee on proposed revisions to selected rates charged by VITA to its customers with the intention of seeking approval from the Joint Legislative Audit and Review Commission (JLARC) at its October 12 meeting. However, JLARC elected to establish a subcommittee charged with reviewing rate revision proposals prior to their consideration by the full commission. This action delayed the process a month.

CIO Lem Stewart presented the rate revision proposal to the new JLARC rates subcommittee on November 3, obtaining approval of all recommended rates. At its meeting on November 8, the Commission approved VITA's rate submission in full. It is retroactive to November 1, 2004.

The COVANET rate change in particular has elicited considerable comments and concerns from affected customers. While VITA's operating losses for COVANET definitely justify the rate increase, when juxtaposed against (1) reductions in a number of state agencies' 2005 and 2006 budgets for savings resulting from decreases in service costs and (2) VITA's inclusion of COVANET savings in its reports on Quick Wins and cost savings, questions have inevitably arisen. VITA has demonstrated that agencies are, even with the COVANET rate increase, significantly benefiting from net savings for this service.

Exhibit A
Combined Balance Sheet
Internal Service Funds
October 31, 2004

	<u>Actual</u>
Assets	
Current Assets:	
Cash with Treasurer of Virginia	9,026,533
Petty Cash and Travel Advances	8,000
Accounts Receivable	26,759,998
Due From Other Funds	
Due from Commonwealth of Virginia	
Prepaid Expenses	<u>1,579,193</u>
Total Current Assets	<u>37,373,724</u>
Noncurrent Assets	
Depreciable Capital Assets, Net	<u>18,114,860</u>
Total Assets	<u><u>55,488,584</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	6,915,057
Notes Payable	6,551,366
Advances from Treasurer of Virginia	
Accrued Compensated Absences	1,723,294
Other Deferred Revenue	220,971
Due to Federal Government	311,953
Other Liabilities	
Total Current Liabilities	<u>15,722,641</u>
Noncurrent Liabilities:	
Notes Payable	7,910,388
Accrued Compensated Absences	<u>1,582,644</u>
Total Noncurrent Liabilities	<u>9,493,032</u>
Total Liabilities	<u>25,215,673</u>
Net Assets	
Investment in Capital Assets, Net of Related Debt	6,443,661
Unrestricted	<u>23,829,250</u>
Total Net Assets	<u>30,272,911</u>
Total Liabilities and Net Assets	<u><u>55,488,584</u></u>

Exhibit B
Combined Statement of Revenues, Expenses, & Changes in Net Assets
Internal Service Funds
For the Period Ended October 31, 2004

	<u>Actual</u>
Operating Revenues	
Charges for Services	47,329,164
Total Operating Revenues	47,329,164
Operating Expenses	
Personal Expenses	15,911,999
Contractual Services	22,110,989
Supplies and Materials	155,486
Educational Assistance and Transfer Payments	386
Rent, Insurance & Other Related Charges	2,902,011
Depreciation	2,893,250
Expendable Equipment/Improvements	748,514
Total Operating Expenses	44,722,635
Operating Income (Loss)	2,606,529
Nonoperating Revenues (Expenses)	
Interest	(122,128)
Depreciation ¹	(28,508)
Reimbursement to Federal Government	
Revenue from the Sale of Recyclable Materials	510
Realized Gain – Assets	28,508
Proceed from Insurance Recoveries	
Sale of Surplus Property	
Loss on Fixed Asset Disposal	
Total Nonoperating Expenses	(121,618)
Income (Loss) Before Transfers	2,484,911
Transfers	
Transfers from Other Funds	
Transfers to the General Fund of the Commonwealth	
Transfers from the General Fund of the Commonwealth	
Total Transfers	
Increase (Decrease) in Net Assets	2,484,911
Total Net Assets, July 1	27,788,000
Total Net Assets, October 31	30,272,911

¹ The Auditor of Public Accounts, the State Comptroller's Office, and VITA agreed that VITA would recognize a gain on the receipt of transferred assets equal to the amount of depreciation recognized on those assets.

Exhibit C
Combined Statement of Cash Flows
Internal Service Funds
For the Period Ended October 31, 2004

	Actual
Cash Flows from Operating Activities	
Receipts for Sales and Services	1,873,706
Internal Activity– Receipts from Other Funds	34,316,760
Internal Activity - Payments to Other Funds	(1,163,310)
Payments to Suppliers for Goods and Services	(3,514,394)
Payments for Contractual Services	(22,110,989)
Cash Payments to Employees for Services	(16,948,142)
Other	
Net Cash Provided by Operating Activities	<u>(7,546,369)</u>
Cash Flows from Noncapital Financing Activities	
Transfers In from Other Funds	
Transfers Out to Other Funds	
Other Non-capital Financing Disbursements - Payment to Federal Government	<u>(530,822)</u>
Net Cash Used in Non-capital Financing Activities	<u>(530,822)</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from Sale of Equipment	
Acquisition of Capital Assets	(694,150)
Principal Paid on Notes Payable	(2,091,364)
Interest Paid on Notes Payable	<u>(122,128)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(2,907,642)</u>
Net Increase (Decrease) in Cash	(10,984,833)
Cash, July 1	<u>20,019,366</u>
Cash, October 31	<u><u>9,034,533</u></u>

Exhibit D
Combined Statement of Revenues, Expenses, & Changes in Net Assets
Enterprise Funds
For Period Ended October 31, 2004

	<u>Actual</u>
Operating Revenues	
Charges for Services	14,359,094
Total Operating Revenues	<u>14,359,094</u>
Operating Expenses	
Personal Expenses	153,516
Contractual Services	2,751,203
Supplies and Materials	4,672
Rent, Insurance & Other Related Charges	11,027
Depreciation	
Non-recurring Cost Estimate Payments to Providers	15,963,405
Expendable Equipment/Improvements	<u>15,416</u>
Total Operating Expenses	<u>18,899,239</u>
Operating Income (Loss)	<u>(4,540,145)</u>
Non-operating Revenues (Expenses)	
Receipts on behalf of others	9,760,850
Payments for receipts collected on behalf of others	(9,760,850)
Interest	
Expenses from Security Lending Transactions	
Loss on Fixed Asset Disposal	
Total Non-operating Expenses	<u>-</u>
Income (Loss) Before Transfers	<u>(4,540,145)</u>
Transfers	
Transfers to the General Fund of the Commonwealth	
Transfers from the General Fund of the Commonwealth	<u>49,359</u>
Total Transfers	<u>49,359</u>
Increase (Decrease) in Net Assets	(4,490,786)
Total Net Assets, July 1	<u>14,403,865</u>
Total Net Assets, October 31	<u>9,913,079</u>

The Enterprise Funds include E-911 and VIPNet services. The transfer from the general fund is for fourth quarter 2004 interest earnings. Non-operating receipts are from customers using Virginia's portal services and payments are to the state agencies that own the websites accessed. June 30, 2004 statements are presented on an accrual basis for Commonwealth reporting purposes. All other monthly reports are presented on a cash basis.

Exhibit E
Combined Statement of Revenues, Expenses, & Changes in Net Assets
General and Special Revenue Funds
For Period Ended October 31, 2004

	General Funds	Special Revenue Funds
Revenues	2,380,324	573,273
Expenditures	<u>778,454</u>	<u>718,463</u>
Revenues Over (Under) Expenditures	<u>1,601,870</u>	<u>(145,190)</u>
Other Financing Sources/(Uses)		186,623
Transfers in/(out)		<u>1,751</u>
Net Change in Fund Balance	1,601,870	43,184
Fund Balance, July 1		<u>3,075,365</u>
Fund Balance, October 31	<u><u>1,601,870</u></u>	<u><u>3,118,549</u></u>

General fund revenues represent general fund appropriations in the 2004 Acts of Assembly, Special Session 1, Chapter 4.

The main components of the Special Revenue Funds are the IFA, PPEA, GIS, Virginia Technology Infrastructure and Federal funds with October 31 fund balances of \$577,000, \$181,000, 348,000, \$300,000, and \$1,484,000 respectively.